FINANCIAL DIRECTOR'S REPORT

PERFORMANCE OVERVIEW FOR FY16

During the financial year under review, Harmony realised the financial benefits from our restructuring and optimisation initiatives as well as the benefits of the higher rand gold price. Improved profitability enabled the group to generate free cash flow, to repay debt and continue with our exploration programme.

Frank Abbott
Financial director

Financial performance

Key drivers of financial performance in FY16

		FY16	FY15	Change %
Gold produced	kg	**33 655**	33 513	–
	oz	**1 082 035**	1 077 466	–
Underground recovered grade	g/t	**5.02**	4.75	6
Gold sold	kg	**33 642**	34 332	(2)
	oz	**1 081 615**	1 103 793	(2)
Gold price received	R/kg	**544 984**	449 570	21
	US$/oz	**1 169**	1 222	(4)
Exchange rate (average)	R/US$	**14.50**	11.45	27
Production profit	Rm	**5 084**	2 803	81
	US$m	**350**	245	43
Cash operating costs and capital	R/kg	**455 929**	442 895	(3)
	US$/oz	**978**	1 203	19
All-in sustaining costs	R/kg	**467 526**	453 044	(3)
	US$/oz	**1 003**	1 231	19

Extract from the income statement

	FY16 Rm	FY15 Rm	Change %
Revenue	**18 334**	15 435	19
Production costs	**13 250**	12 632	(5)
Reversal of impairment/(impairment) of assets	**43**	(3 471)	>100
Gross profit/(loss)	**2 548**	(3 618)	>100
Exploration expenditure	**191**	263	27
Foreign exchange translation loss (net)	**192**	367	48
Taxation/(taxation credit)	**632**	(704)	>(100)
Net profit/(loss) for the year	**949**	(4 536)	>100
Earnings per share (cents per share)	**218**	(1 044)	>100

Revenue increased by 19% as a result of the 21% increase in the average rand gold price received to R544 984/kg in FY16. The increase in the rand gold price was mainly due to the weakening of the rand against the US dollar.

Production costs were well contained and the 5% increase in FY16 compared to the previous year is largely as a result of:

- A R348 million (US$24 million) increase in labour costs, including contractors, mainly due to the settlement of the wage agreement in October 2015, partly offset by reduction in the total headcount
- A R142 million (US$10 million) increase in water and electricity costs to R2.1 billion (US$148 million) mainly due to the annual tariff increases. Tariff increases were partially offset by electricity saving initiatives at all South African operations
- An increase in the royalty expense of R76 million (US$5 million) due to improved profitability at South African operations in FY16

Financial highlights for FY16 include:

- Contained overall unit cost increase at 3% to R467 527/kg, all-in sustaining cost (19% decrease to US$1 003/oz)
- 19% improvement in revenue to R18.3 billion (6% decrease of US$84 million)
- 81% increase in production profit to R5.1 billion (43% increase to (US$350 million)
- R2.5 billion (US$176 million) gross profit versus a R3.6 billion (US$297 million) gross loss in the previous year
- 54% reduction in net debt to R1.08 billion (61% to US$74 million)
- Dividend of 50 SA cents (4 US cents)

The group's revised business plans for FY17 resulted in a net reversal of impairment of assets of R43 million (US$3 million). This includes a reversal of an impairment of R738 million (US$50 million) on Doornkop, due to the higher rand gold price assumption and improved operational efficiencies in FY16. An impairment of R466 million (US$32 million) was recorded on Hidden Valley following the updated life-of-mine plan for FY17. An impairment of R229 million (US$15 million) was recorded on Masimong due to a decrease in the grade estimation for the operation.

Exploration expenditure of R191 million (US$13 million) mainly relates to exploration activities at Kili Teke and the prefeasibility study expenses of the Golpu project.

The net foreign exchange translation loss of R192 million (US$13 million) in FY16 includes a translation loss of R665 million (US$46 million) on the US dollar revolving credit facility due to the weakening of the rand against the US dollar. This was partially offset by derivative gains of R446 million (US$30 million) on the foreign currency hedge.

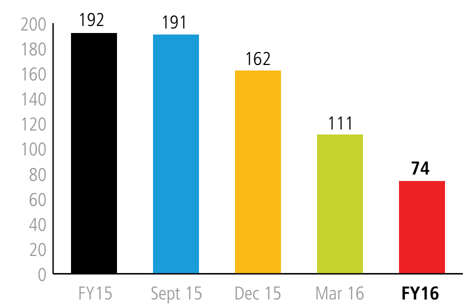
The taxation expense recorded in FY16 is a result of the improved profitability of the South African operations, an increase in non-mining tax arising from the derivative gains on the foreign currency hedge and an increase in the net deferred tax rates of the South African operations due to the increase in estimated profitability.

Extracts from the cash flow statements and balance sheets

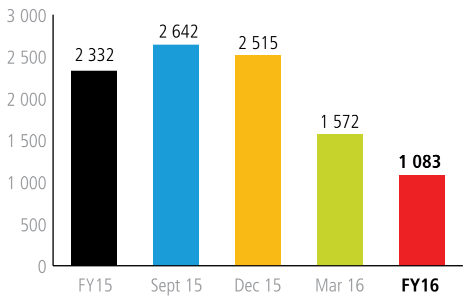
The table below indicates our debt and cash positions for FY16

	Debt (Rm)	Cash (Rm)	Net debt (Rm)
Opening balance 30 June 2015	**(3 399)**	**1 067**	**(2 332)**
Net cash generated	(20)	1 934	**1 914**
Cash generated by operating activities	–	4 513	4 513
Cash utilised by investing activities	–	(2 599)	(2 599)
Foreign currency translation and other adjustments	(20)	20	–
Translation loss on US dollar loan	(665)	–	**(665)**
Net debt repaid	1 745	(1 745)	–
Closing balance 30 June 2016	**(2 339)**	**1 256**	**(1 083)**
Net change	1 060	189	1 249

FY16 net debt
(US$m)



FY16 net debt
(Rm)



Repaying our debt remains a priority. Harmony further strengthened its balance sheet by effectively repaying debt of R1.7 billion (US$114 million) in FY16. The group's continuing focus on generating increased free cash flow should enable us to achieve a zero net debt position during FY17.

Cash generated by operating activities increased by 125% to R4.5 billion (or 77% to US$312 million) mainly due to the increase in revenue resulting from the higher average rand gold price received in FY16 as compared to FY15.

Cash utilised by investing activities decreased mainly as a result of capital expenditure that decreased by 16% to R2 437 million (or 32% to US$168 million) in FY16 as compared to FY15 in line with Harmony's operational life-of-mine plans following the FY15 optimisation. Planned capital expenditure for FY17 is R2 793 million (US$200 million).

Net debt repaid

During FY16, US$110 million was repaid on the US dollar revolving credit facility. Translation losses of R665 million (US$46 million) were recorded on the loan due to the weakening of the rand against the US dollar. The facility matures in February 2018.

Shortly after the beginning of FY16, R300 million (US$24 million) was drawn down on the R1.3 billion Nedbank revolving credit facility. R400 million (US$20 million) was repaid later in the year. The R300 million (US$20 million) still outstanding at year end was repaid shortly after year end. The facility matures in December 2016.

For more on this refer to the consolidated financial statements in the Financial Report 2016, which is available at *www.har.co.za/16/download/HAR-FR16.pdf.*

The graphs alongside illustrate the change in net debt year-on-year.

Market volatility

The rand/US dollar exchange rate weakened significantly during FY16 due to various factors such as the stronger US dollar (impacted by the US Federal Reserve interest rate increase and expectations of further rate increases), deteriorating sentiment towards emerging economies, concerns surrounding lower global and domestic growth, political uncertainty and the threat of further downgrades of South Africa's sovereign credit rating. A particularly sharp weakening in the exchange rate occurred during December 2015 and January 2016, with the rand trading at levels above R16.00/US$. Overall, the average rand/US dollar exchange rate weakened by 27% to R14.50/US$ in FY16 (FY15: R11.45/US$). As a result of the weaker exchange rate, the average rand gold price received in FY16 increased by 21% to R544 984/kg (FY15: R449 570/kg).

This had the effect of increasing the operating margins of all our South African operations dramatically in a short period of time. Given Harmony's stated objectives to reduce debt and strengthen the balance sheet, the board approved a currency hedging strategy in February 2016.

Since December 2015, there has been a dramatic change in the sentiment and direction of the dollar gold price, which had risen by 25% to US$1 321/oz by the end of the financial year. This was driven by much improved investment demand for gold as well as the uncertainty created by the vote in the United Kingdom to withdraw from the European Union, the so-called Brexit. The higher US dollar gold price combined with the rand remaining at relatively weak levels, increased the rand gold price to levels well above R600 000/kg. These levels presented an opportunity for the board to approve a gold hedging strategy that provided further certainty to our cash flows and our objective to strengthen the balance sheet.

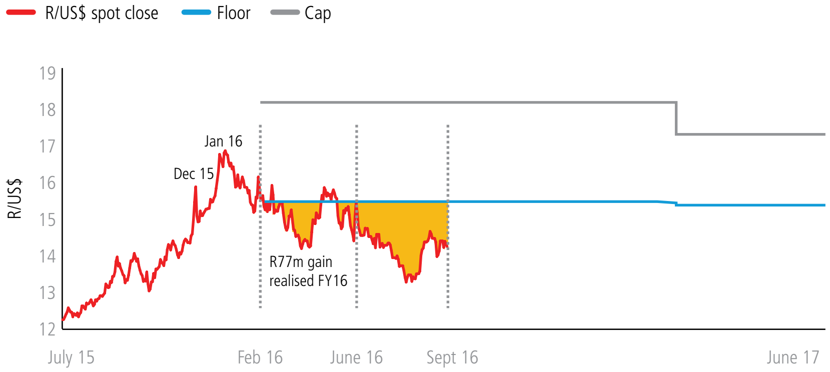
Currency hedging

During February 2016, Harmony initiated a foreign exchange hedging programme. The transactions are in the form of zero cost collars, which establish a minimum (floor) and maximum (cap) rand/US dollar exchange rate at which to convert US dollars to rands. Hedge accounting is not applied to these currency hedging contracts. The nominal value of the open contracts at the end of FY16 was US$500 million and is evenly spread over a 12-month period. These contracts are summarised in the table below.

		H1 FY17	H2 FY17
Sold call options			
Nominal value	(US$ million)	250	250
Average strike price	(R/US$)	18.57	17.97
Lowest strike price	(R/US$)	17.93	16.92
Highest strike price	(R/US$)	19.08	19.08
Purchased put options			
Nominal value	(US$ million)	250	250
Average strike price	(R/US$)	15.56	15.53
Lowest strike price	(R/US$)	15.40	15.10
Highest strike price	(R/US$)	15.80	16.10

The graph below shows a brief history of the rand/US dollar exchange rate and average levels at which the hedging contracts were concluded. The shaded area indicates the realised gains to date.

Spot vs floor and cap



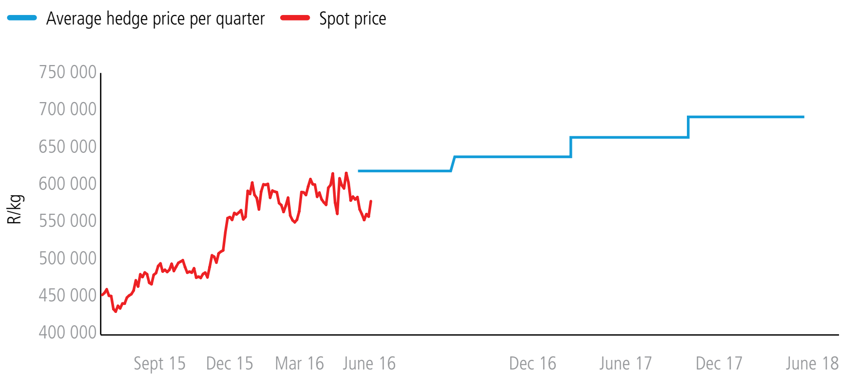
Gold hedging

Post year end, the group entered into short-term gold forward sale contracts for 13 440kg over a period of 24 months, representing approximately 20% of our total gold production. The forward sale contracts were concluded at an average gold price of approximately R682 000/kg as set out in the table below.

		H1	H2
FY17	kg	3 049	3 360
	average R/kg	645 121	666 888
FY18	kg	3 360	3 360
	average R/kg	692 836	720 374
FY19	kg	311	
	average R/kg	725 499	

The graph below indicates a short history of the rand gold price, and the average gold price of our forward gold sale contracts as at 31 July 2016.

Gold hedge (R/kg)



The size and duration of the hedge means that 20% of the rand gold price is fixed at the levels indicated, while the group retains full upside exposure on 80% of the group's gold production for the next two years.

Frank Abbott
Financial director
26 October 2016